

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP,
AND VILLAGE OF ST. CHARLES
WATER AUTHORITY**

Saginaw County, Michigan

FINANCIAL STATEMENTS

March 31, 2006

SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND VILLAGE OF ST. CHARLES WATER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board
Swan Creek Township, James Township, and
Village of St. Charles Water Authority
Saginaw County, Michigan

We have audited the accompanying basic financial statements of the Swan Creek Township, James Township, and Village of St. Charles Water Authority, as of and for the year ended March 31, 2006 as listed in the table of contents. These financial statements are the responsibility of Swan Creek Township, James Township, and Village of St. Charles Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Swan Creek Township, James Township, and Village of St. Charles Water Authority, as of March 31, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Berthiaume & Co.

May 31, 2006

BASIC FINANCIAL STATEMENTS

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

March 31, 2006

Assets:

Current assets:

Cash and cash equivalents	\$ 161,841
Due from other governmental units	<u>23,254</u>
Total current assets	<u>185,095</u>

Liabilities:

Current liabilities:

Accounts payable	<u>23,430</u>
Total current liabilities	<u>23,430</u>

Net assets:

Unrestricted	<u>161,665</u>
Total net assets	<u>\$ 161,665</u>

The accompanying notes are an integral part of these financial statements.

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

Year Ended March 31, 2006

Operating revenues:

Intergovernmental:

Charges for services:

Water sales \$ 300,270

Annual fees 18,000

Total operating revenues 318,270

Operating expenses:

Supplies 38

Contracted services 2,124

Purchase of water 300,276

Telephone 1,905

Insurance 3,838

Utilities 1,784

Repair and maintenance 4,430

Total operating expenses 314,395

Operating income (loss) 3,875

Non-operating revenues (expenses):

Investment income 3,309

Total non-operating revenues (expenses) 3,309

Net income (loss) 7,184

Net assets, beginning of year 154,481

Net assets, end of year \$ 161,665

The accompanying notes are an integral part of these financial statements.

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended March 31, 2006

Cash flows from operating activities:

Intergovernmental receipts	\$ 327,221
Cash payments to suppliers for goods and services	<u>(315,237)</u>
Net cash provided (used) by operating activities	<u>11,984</u>

Cash flows from investing activities:

Interest received	<u>3,309</u>
Net cash provided (used) by investing activities	<u>3,309</u>
Net increase (decrease) in cash and cash equivalents	15,293

Cash and cash equivalents, beginning of year	<u>146,547</u>
Cash and cash equivalents, end of year	<u>\$ 161,840</u>

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	\$ 3,875
Changes in assets and liabilities:	
Due from other governmental units	8,951
Accounts payable	<u>(842)</u>
Net cash provided (used) by operating activities	<u>\$ 11,984</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND VILLAGE OF ST. CHARLES WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Swan Creek Township, James Township, and Village of St. Charles Water Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

The Swan Creek Township, James Township, and Village of St. Charles Water Authority was created in December, 2001 by the three constituent municipalities under the provisions of Act 233, Public Acts of Michigan, 1955 as amended. The Water Authority was created to administer and operate the water main supply system which provides the water supply for the three municipalities. The Water Authority superseded the James Township, Swan Creek Township, and St. Charles Village Water Supply District which was established by the Saginaw County Board of Commissioners by a resolution adopted June 10, 1969. The Water Authority took over operations from the Water District as of January 1, 2002. The governing body of the Water Authority is a Board of Commissioners which is made up of two voting representatives from each municipality for a total of six board members.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 these financial statements of the Water Authority include all activities for which the Authority has oversight responsibility. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The Authority engages in only business type activities.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The operations of this fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The financial operations of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND VILLAGE OF ST. CHARLES WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2006

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to administer and operate the water main supply system which provides the water supply for the three municipalities. Operating expenses include the cost of water, administrative expenses, repairs and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Equity:

Deposits – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired.

Due from other governmental units – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital assets – The Authority has no capital assets to report. The Authority administers, operates and maintains the water mains for the three participating units. The capital costs of these main lines have been recorded and depreciated separately by each of the three units.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Authority Board is in accordance with Public Act 196 of 1997. The Authority's deposits and investments have been made in accordance with statutory authority.

The Authority's deposits are subject to custodial risk, which is presented in more detail as follows:

SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND VILLAGE OF ST. CHARLES WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2006

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to them. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$161,841 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

NOTE 3: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The Authority has purchased commercial insurance to cover any potential claims associated with these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 4: CONTRACTS AND COMMITMENTS

The Authority has entered into various contracts as follows:

- **Water Supply Services** – The Authority contracts with the City of Saginaw for its water supply needs.
- **Service Contracts** – The Authority contracts with each of the constituent municipalities to provide services.



May 31, 2006

To The Board of Directors
Swan Creek Township, James Township &
Village of St. Charles Water Authority
St. Charles, MI

We have audited the financial statements of the Water Authority for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the Water Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Water Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Water Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Water Authority's financial statements and this communication of these matters does not affect our report on the organization's financial statements, dated May 31, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants